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REVIEW OF MULTILATERAL EXPORT CONTROLS  
ON TRADE WITH COMMUNIST CHINA

It is assumed that the CFEF will address itself only to "US Negotiating Objectives" (Sec. VI) and "Recommendations for Negotiation" (Sec. X) of the EDAC Summary Report.

Objectives (Sec. VI)

1. US wishes to maintain a substantial (differential) embargo against Communist China, effectively enforced, and with few opportunities for exceptions.
2. US seeks to prevent USSR and European Satellites from acting as intermediaries in the procurement of commodities denied to Communist China directly by differential controls.
3. In any quid pro quo with other PC's, the US will seek to obtain:
  - (a) reembargo of copper wire
  - (b) better controls on ship sales
  - (c) agreement to consult if IL III shipments to the Bloc reach a given peril point
  - (d) closer relationship of COCOM to NATO, and
  - (e) continuing review of Bloc trade tactics and economic penetration tactics

Concession (Sec. X)

All EDAC agencies agree that only the following Annex D commodities are eligible for negotiation:

- (a) List A
- (b) List B
- (c) Selected List C item portions which, after redefinition of the full item, are considered eligible for List A or B.

State, ICA, MDAC, and Commerce recommend the above as an initial negotiating position for the pre-CG bilaterals particularly with UK and Japan.

Defense and Treasury recommend beginning with List A only and using the balance for a retreat position.

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US foreign economic policy, as now stated, requires a continued effort to maintain the China differential embargo as such, and to preserve the multinational control structure. Unless US policy is restated, our negotiators must seek to preserve the China differential embargo by making such concessions to PC demands for decontrol as might be required to preserve COCOM and CHINCOM. The area of concessions envisaged for the proposed bilaterals and the forthcoming CG review is not likely to satisfy UK and other PC demands for decontrol nor will it enhance cooperation in the multilateral structure. A restatement of US policy might encourage rationalization of COCOM controls based on uniform commodity lists applicable to the entire Bloc, developed according to criteria which take into account the present status of Bloc technology and economic development, and designed to marshal PC resources to challenge such current Bloc policies as economic penetration of free-world areas.

NSC 152/3 deals with "extent and intensity" with which US should apply controls on trade with Sino-Soviet Bloc. Para. 16 predicates differential controls on fact that "Communist China is a military aggressor". Para. 18 states that "The implementation set forth herein does not require a change at this time in the Mutual Defense Assistance Control Act (Battle Act), the Export Control Act, or related legislation." Para 20 states:

With respect to Communist China, in the light of the Korean armistice, and pending a political settlement in Korea and a review of basic policies toward Communist China and Korea, maintain the present U.S. level of controls on transactions with Communist China and continue intensified efforts to persuade our allies to refrain from relaxing their controls on trade with Communist China.

NSC Directive 5429/5 emphasizes the importance of maintaining the multilateral framework for enforcement of China trade controls:

(2) Urge other Free World countries to maintain the current level of export controls on trade with Communist China. In aid of this effort, the United States should, without frustrating the multilateral embargo program, endeavor to handle questions of routine exceptions in such manner as to preserve and foster the willingness of other countries to retain the present level of controls.

+ NSC Directive 5429/5  
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2 -  
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ACEP Policy Determination 810 requires Commerce to deny licenses for shipment of commodities to free-world countries if such commodities are on the strategic control lists and if such free-world countries "knowingly permit" export of the same commodities from their jurisdiction to Bloc destinations. From the US viewpoint, this policy determination as well as the Battle Act provisions place a premium upon an effective exceptions procedure, as long as PCs include in Bloc trade agreements items still on control lists.

Comment on Area of Concession

The China differential embargo consists of IL II (26 items), IL III (64 items), and Consolidated China Special List (207 items). The 176 items now on IL I are embargoed to all parts of the Sino-Soviet Bloc.

UK proposes decontrol of 80 differential items. Japan, according to the most recent submission, proposes decontrol of 116 items.

List A of Annex D contains 37 items considered strategically and economically "least significant" to China. List A contains no IL II or IL III items. Except for tinplate and zinc, it consists only of chemical items. It does not contain any items to which UK assigns highest priority for decontrol.

List B (of "average significance" to China) contains 37 items, including machinery, transport, electronic, and metal items. List B contains only one item named by UK and one other item named by Japan as high priority for decontrol.

Redefinitions of items now on List C ("highest significance") in order to split off item portions of less significance will affect no more than 8-10 items.

Sec. X proposes bilaterals first with Japan and UK, then other PCs, before CG meeting. US hand may be forced if delay excessive. CHINCOM chairman remarked 27 March "any delegation can convene CG whenever they wish." (State is planning tentatively on a CG meeting about 14 May.)

List A contains eight items listed by Japan as first priority for decontrol. If small watercraft (List B), three-wheeled motor vehicles and GI sheets are also included in the opening concession, it may be possible to keep the Japanese with us. Defense has agreed to remove the three-wheeled vehicles from List C. Defense and Commerce also agree to possible concession on GI sheets up to .63 mm thickness. However, France is shipping now 9 mm thickness sheets to China and Japan may insist on same.

- 3 -

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For UK, a special concession on rubber (or CIA "hard-core" item on List C) is scheduled. Nevertheless, Lists A and B and the proposed concessions from List C in addition to rubber, are not likely to satisfy UK requirements for first-stage decontrol. No UK first-priority items would be included unless rubber scrap and all motor vehicles were removed from List C. The total of these concessions does not appear to be conducive to obtaining anything like the quid pro quo sought by US.

- 4 -

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